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**A CASE STUDY OF INDUSTRIAL MARKETING: A RECREATION AND
SPORTS PRODUCTS SUPPLIER IN HONG KONG**

by

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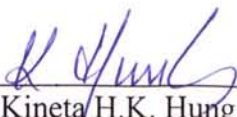


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ABSTRACT

This paper is a case study of a local trading company for its strategies in industrial marketing. The company has had over 15 years experience in the recreation industry in Hong Kong. In the first eight years, the company enjoyed the benefit of being a sole representative of a market leading product, few competition and simple external and industrial environment. However, it started to cope with severe market competition and changing environmental factors since 1990.

The objectives of this paper are to examine the existing strategies of the company, to identify its internal problems, and to recognize and evaluate the external opportunities and threats for the company through the analysis of the environmental factors. A recommendation will be made for the company to manage the environmental opportunities and threats. Feasible solution will also be suggested for its problem solving in the short run and long run.

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PREFACE

Acknowledgements

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Phoebe Li

CHAPTER 1

INTRODUCTION

Objectives

This study is to examine the existing strategies of a trading company with over 15 years history in the recreation and sports industry in Hong Kong - the TP Co. Ltd. Through the analysis of the environmental factors, the research is trying to recognize and evaluate the external opportunities and threats for TP. To have more in-depth understanding of the situation, the internal problems of TP will be identified. Feasible approaches to manage these opportunity and threats will be recommended for TP given its available resources. Viable solution will also be suggested for problem solving in the short run and long run.

Scope of study

To realize the present situations and to recommend possible solutions for TP to manage the opportunities and threats, several approaches will be taken to collect valuable information for the research analysis.

Noted that macro trend of external environment is affecting all the businesses here in Hong Kong from time to time, a careful study will be taken to understand the economical, demographic, social, legal and technological impacts to the industry. Special focus will be addressed to how these external impacts affect the recreation and sports products business today. Further study will be emphasized to understand the present industrial circumstances including the competitive forces available, e.g. competitors' threats, bargaining power of targeted clients, market entry barriers, bargaining power of suppliers, etc. The trend of development and key success factors

for this industry will also be identified through this analysis.

After understanding the external environmental influences and industrial situations, this study will go further to the internal analysis of GT group and TP including the business strategies, the company policies and the organizational structure. Major focus will be placed on the present strategies and performance of the Recreation and Sports (RS) department. Its strengths and weaknesses, the existing and potential problems, the external opportunities and threats, the limitations and resources available are the areas to examine.

Finally, after a comprehensive analysis the study will develop and suggest some tasks to handle the present situation both in the long and short run. Specific tactics for differentiation and enhancing competitive edge will be developed and identified for RS department in TP.

Methodology

Secondary Data Collection

For the external environmental studies, secondary data from statistics and Government report, journal and magazines will be employed for the basic research and exploration. It is expected that the information can present some insights of the environmental influences to the industry, and more important is the emerging opportunities.

Regarding the analysis of the internal situation, firstly, secondary data will be collected as fundamental information to support the research analysis. A review of the latest five years' annual reports of GT group will help to understand the importance of TP in the group, the resources available to TP and the strategic direction of the mother group which has in turn been affecting the strategies of business units in TP. Further, the annual reports of competitors, if available, will also be studied for the analysis of competitors force, strength, tactics, strategies, and more important their performance in terms of market share.

The past performance of RS department in TP will be investigated. The

secondary data collected will be focused on RS's strategic direction, market share, total sales turnover, profit and loss, net income to TP and its growth rate. These will help to raise the issue of realizing the internal strength and weakness studies. The sales forecast and annual budgetary report will be critically evaluated to look at the forthcoming opportunities and threats particularly to RS department in 1997. Together with the above secondary data, there will be a clear picture of present situation of TP in the group and in the market.

Observations

Observation to the competitors' products at sites will be another elementary task to understand the market trend, the competitor's product quality and the site situation. This will assist to have more objective understanding of the industry and market situation. Complaints and successful stories within the industries will be taken as reference to study the critical success factors for the industry.

Primary Data Collection

Concerning the external issue, unstructured questionnaires and informal personal interviews (or called discussions) with the key players, including the architects of Architectural Services Department in Government, dominant clients of TP; managing director of TP; previous successful colleagues who are still playing active roles in this industry, and existing staff of RS department. The questions or topics discussed are summarized in Appendix 1, 2 and 3 respectively for these three groups of respondents.

These interviews will facilitate the understandings of the clients' response and comments towards TP and the competitors in terms of overall services and quality; the latest market intelligence, the strategic direction of the group and company, the rights and responsibility of RS department within TP, the constraints and supports from the mother group, and last but not the least the reflections and opinions of RS colleagues towards the present strategies and performance of the department.

Literature Review

Lastly, literature, papers and articles published by the Hong Kong Recreation Management Association, video seminars and conference papers by the Hong Kong Institute of Landscape Architect will be scrutinized. These kinds of valuable information will provide precious insights of the development trend in the fields.

Limitations

The mega trend of China market seems inevitable to every business in Hong Kong, with no exception to the recreation and sports supply market. Owing to the incomplete and not well published secondary data of China, this study has difficulty to collect precisely those information related to the China market. Primary data for the key topics or issues of China will become the only source.

Further, some confidential information of competitors are not available. Most of their information and data are collected through indirect channels, such as interview of customers and through observations. Formal practices and proper channels of collecting competitors' information are taken for this whole studies. Most of the sensitive data of TP will be presented in terms of percentage in order to keep the internal data and information of TP confidential. In some cases it is inevitable to state the data to support the argument and this will subject to the situation.

CHAPTER II

THE COMPANY

History and Background

The TP Company Limited, established in 1986, is a member of the GT Group which is a publicly listed property developer. Beforehand, TP was a private company called BD Company Ltd. established in 1980. Later, because BD Company Ltd. lost money, the owner sold the company to the GT Group. At that time, the company had already been selling recreational products for over five years.

Being a subsidiary of the GT Group, the company has its finance fully supported by its mother company. Loans are lent from the mother company, and profits will go to the account of the mother company too. TP specializes in the sales and marketing of high quality building and decoration materials and handles projects in relation to medium to large construction sites. Its clientele includes government departments, private developers, building contractors, architects, interior designers and various business organizations and non-profit making institutions such as schools and hospitals.

Its major markets are Hong Kong, China and Macau. As the property market in Hong Kong was booming in the past ten years, the company has experienced tremendous growth in the first three to four years, and were making huge profit before the competition became severe in the early 1990s.

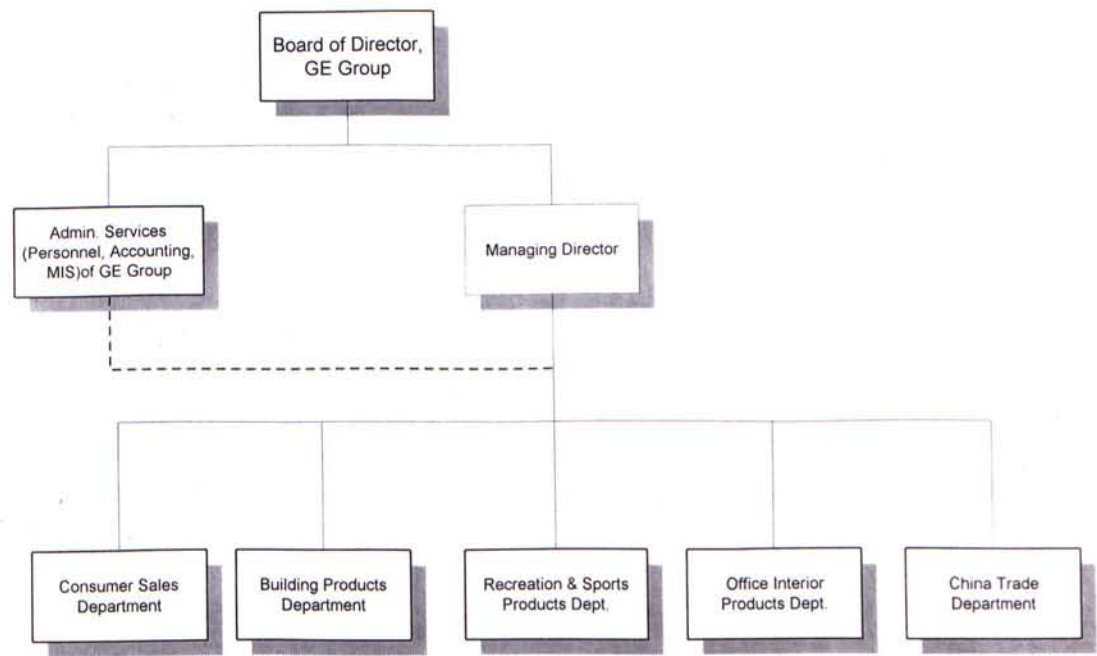
At that time, there were two major product lines which were the main stream of generating profit. One was the recreational products and the other is the sanitary product line. At the same time, the company began to diversify into other product range, like solid surfacing materials and office interior products.

Organizational Structure

In the year 1997, the company has a product range of architectural lighting, raised flooring systems, office ceiling works, mirror-door contractor wardrobes, solid surfacing material, sports and residential hardwood flooring, park and playground facilities, as well as indoor and outdoor sports equipment.

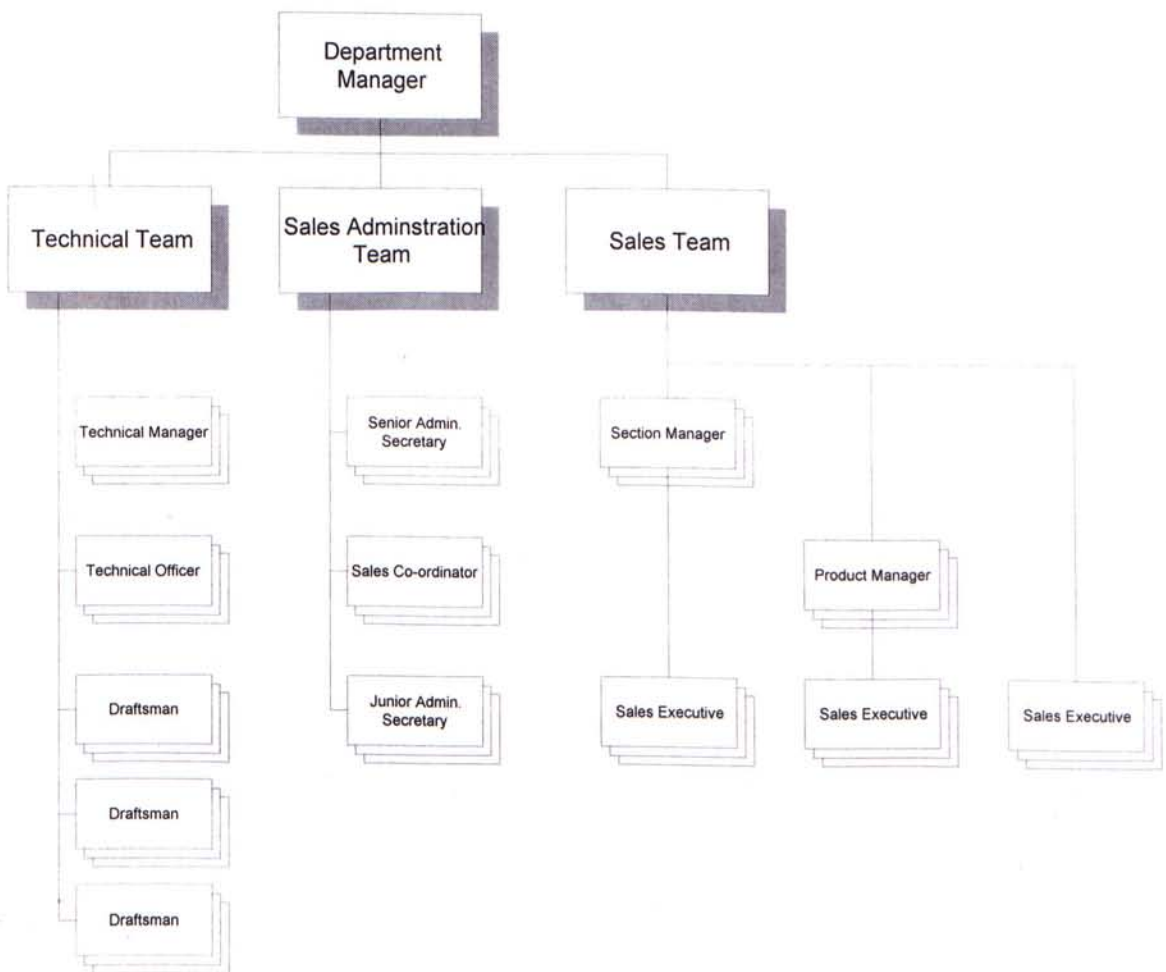
The company uses divisional departmentation to group individual and resources by products into five different business units. They are namely Consumer Sales Department, Building Products Department, Recreation and Sports Products Department, Office Interior Products Department, and China Trade Department. The company has a total of 72 staff, while shares the support from its mother company in the area of human resources, accounting, administration and information system. Exhibit 1 shows the organization chart of TP and the divisional pattern of organization grouped around products and regions.

EXHIBIT 1
ORGANIZATIONAL CHART OF TP CO. LTD.



In this study, we will concentrate to look at the Recreation and Sports Products (RS) Department, which has been providing recreation and sports products in the market for over 15 years. There are a total of 14 staff in the department, including a department manager who looks after all aspects and the development of the whole department, three clerical staff for sales administration, five sales personnel for business development and sales, and five technical staff for support of design, installation and technical advice. Exhibit 2 shows the structure of the department.

EXHIBIT 2
STRUCTURE OF RS DEPARTMENT



In 1995/96, the department has contributed one fourth of the company's total sales turnover, and has achieved 45 percent of the total net profit of the company.

Business Strategies

Marketing Mix

Product

The existing product line of the RS Department include outdoor playground equipment, safety matting, outdoor site furniture, indoor play equipment, sports and gymnasium equipment, indoor maple and synthetic sports flooring, and squash court facilities.

Same as the situation of other industrial market, the product or service is the lead element in the marketing mix in the company. It is the primary vehicle for delivering the benefits sought by the target customers. In TP, product quality is much emphasized and most of its product lines are with top quality. Therefore, the products defines its prestige quality position in the market.

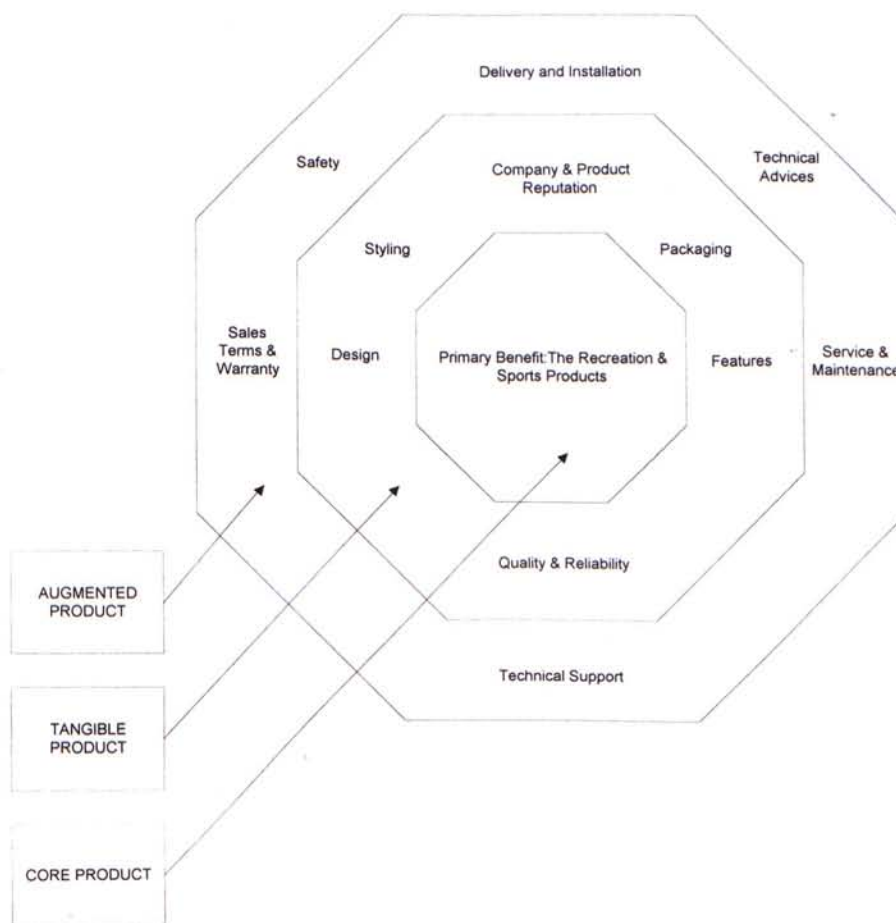
When defining the products, we have to recognize the many dimensions of the product as shown in Exhibit 3. The first level is the core product, which is the facilities or the equipment which serve the purpose for play or sports. The second level is the tangible product referring to all aspects of the physical product itself. The product quality, features, styles or designs, and brand names are used to distinguish the product. For example, the brand of wooden sports flooring is recognized as with international and professional standard because it is widely used for NBA competitions in U.S. and also the Olympics Games. For the playground equipment, the content of the product is not only the quality itself, but also its designs. Almost all the modules play systems are custom-designed for the local market to suit the age-range and the number of users, the site layout plan, the budget, or even to match with the surrounding environment. Every single components (slide, swing, play panel, climber, roof), the shape and the color of the equipment can be designed according to the needs and favors of the customers.

The third level is the augmented product which include the support services, such as installation, delivery, credit, warranties, advice and after-sales servicing. On top of the product quality, these are an integral part of the total value the customer is purchasing. Owing to the product nature, safety and technical advice are the major issues that the customers concern about and rely on the supplying company. Even if the product quality of a company is good, it cannot survive without proper installations and technical support.

Other than that, customers need a long product warranty and a quick maintenance service as these products are under a high usage rate, or a great chance of vandalism. The above mentioned dimensions of the products are particularly important to the government and institutional sectors, as they have to explain to the public that the tax money they spent is justified and they have to make sure the facilities are safe and are in good conditions. Because of these factors, TP has established a professional technical team which is responsible for the design, installations, maintenance service and professional advice on technical issues.

EXHIBIT 3

THREE DIMENSIONS OF PRODUCTS OF TP



Source: Modified from P. Kotler, Marketing Management: Analysis, Planning, and Control, 7th ed. (Englewood Cliffs, NJ: Prentice-Hall, 1991), p.46.

Price

The price levels of the products are mainly affected by the manufacturer's costs and the labor cost for installations. However, price may change frequently in response to changes in competitor tactics, and evolving market conditions. Among the company's product range, playground equipment is the product with the most fluctuate prices. This is because of the nature of the product as mentioned in the above section. As customers buy the product, they also buy the custom-made designs

which are difficult to be evaluated by unit rate as each modules system has its own size, its own components and its own shape.

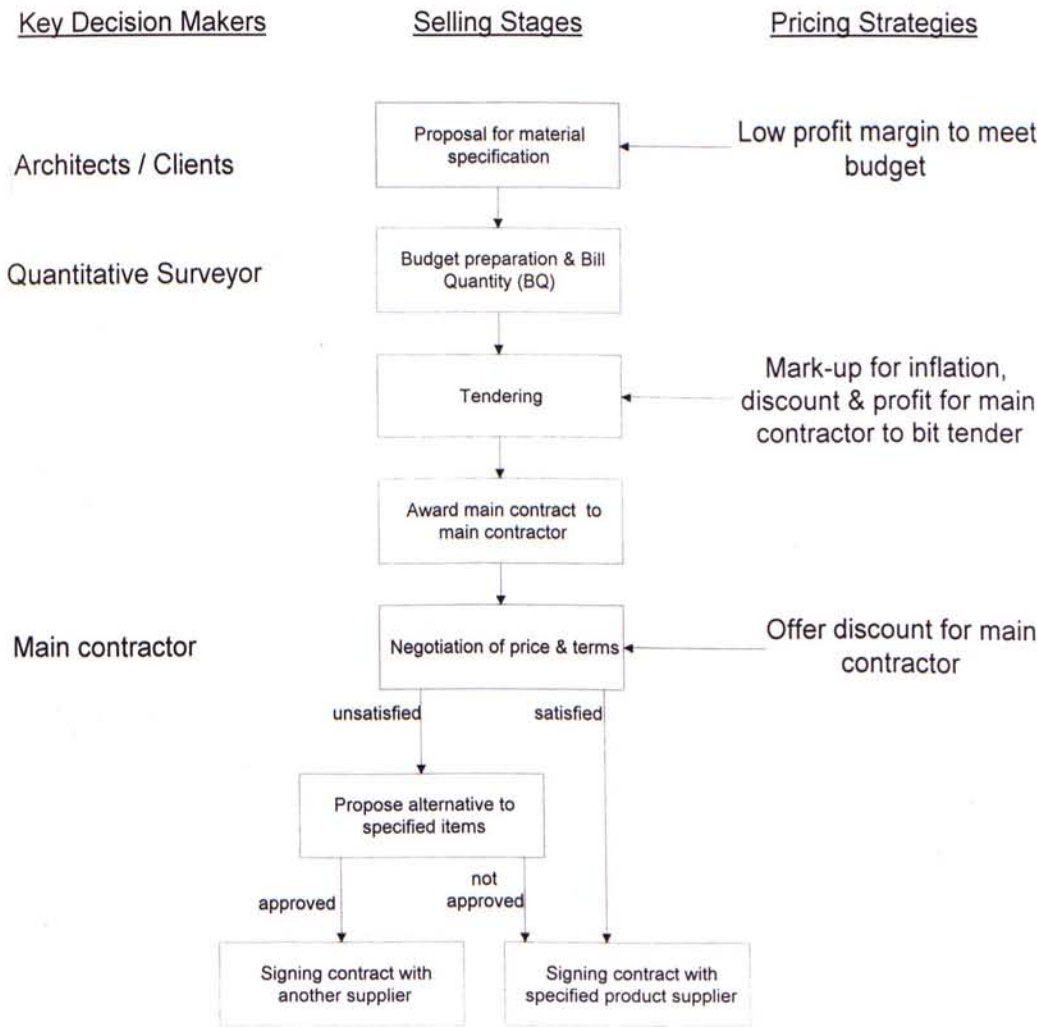
When determining the pricing, a very typical scenario has to be taken into account. It is price negotiation between buyer and seller. In the construction industry, although it is the architects or designers who specify a particular brand of building materials, it is the main contractor who tender for the building works and therefore finally sign the contract with the supplier, who will become the subcontractor under the main contract. It is a normal practice for both parties to negotiate the price and payment terms with each other before entering the contractual relationship. Moreover, it is an industrial practice that the subcontractor has to offer price discount for the main contractor.

Normally, when TP quote its price to the architect for budget purpose in the material selection stage, the salesmen will quote a price with less profit margin so as to meet the budget of the architect for specification purpose. However, once the products are specified and it is time to quote for main contractors to bid the tender, they have to take into account the price discounts for the main contractor, the fluctuation of exchange rate of foreign currency and also the inflation expected when it is the time to sign contract with the main contractor.

The inflation of material and labor cost is an important factor affecting the price as normally a construction project take two to three years to complete after the selection of material by the architects. Therefore, the price has to be calculated very carefully and experience is very important for estimating inflation, and forecasting the discount rate which can satisfy the main contractor and convince them to stick using the specified products. If the price is set too high, the main contractor is allowed to submit alternative to the architects for approval of changing material. Dual pricing strategy is normal in the industry and for the company. Exhibit 4 summarizes the selling process and the dual pricing strategy.

In overall, the pricing strategy of the company varies a lot depending on the product itself, the market demand and the competitions. In the case of the maple sports flooring, the product is in the growing stage of the product life cycle and there is only one major competitor in the market, the company can use market-skimming pricing. However, for other products which are in their mature stage of the product life cycle, such as the safety matting and the squash facilities, it has to use market penetration pricing.

EXHIBIT 4
DUAL PRICING STRATEGY IN THE SELLING PROCESS



Promotion

Personal selling, advertising and publicity are the major promotional tools in the industry and for TP. Advertisements are printed in trade journal which are specialized in the construction industry with architectural, building, and interior design aspects. TP put articles and advertisement on these magazines on special issues and on regular basis.

As shown in Exhibit 5, personal selling is the most effective communication tool in the industrial promotion mix, even though the cost is the highest. In TP, personal selling is the most important promotional tool to introduce products, to make presentations and follow-up orders. Free catalogs and samples are the major selling tools. Moreover, the company uses job reference photos, and videos to make in-depth product presentations. A successful salesman can also establish and maintain good relationship with the clients by solving their problems and satisfying their needs, this is a critical factor for the survival of the company in the market. A good buyer-seller relationship can help to gather market information and gaining advice and opinions from clients.

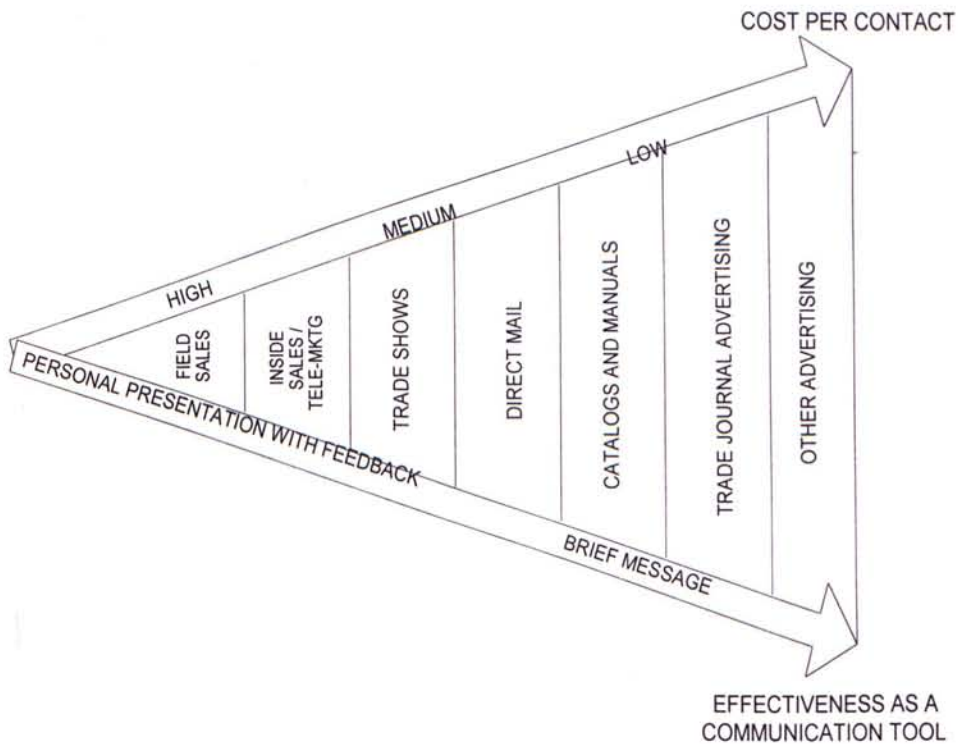
Direct mailing, trade shows, novelties and sponsorship are also used as promotional tools actively, in order to deliver brief message and save the cost. For example, every year the company sponsor facilities or cash for the "Flower Show" organized by the USD and RSD. TP also sponsor some other non-profit making organizations which are active in the industry, such as the Hong Kong Institute of Landscape Architect.

Place

As discussed in the promotion mix, personal selling is the most effective tool. Being a distributor of its principles, TP does not use other distribution channels to market its products.

EXHIBIT 5

COMPONENTS OF THE INDUSTRIAL PROMOTION MIX ON COST AND PERFORMANCE



Source : Adapted and modified from Hass, R. Industrial Marketing Management. New York: Van Nostrand Reinhold Co., 1976, p.222.

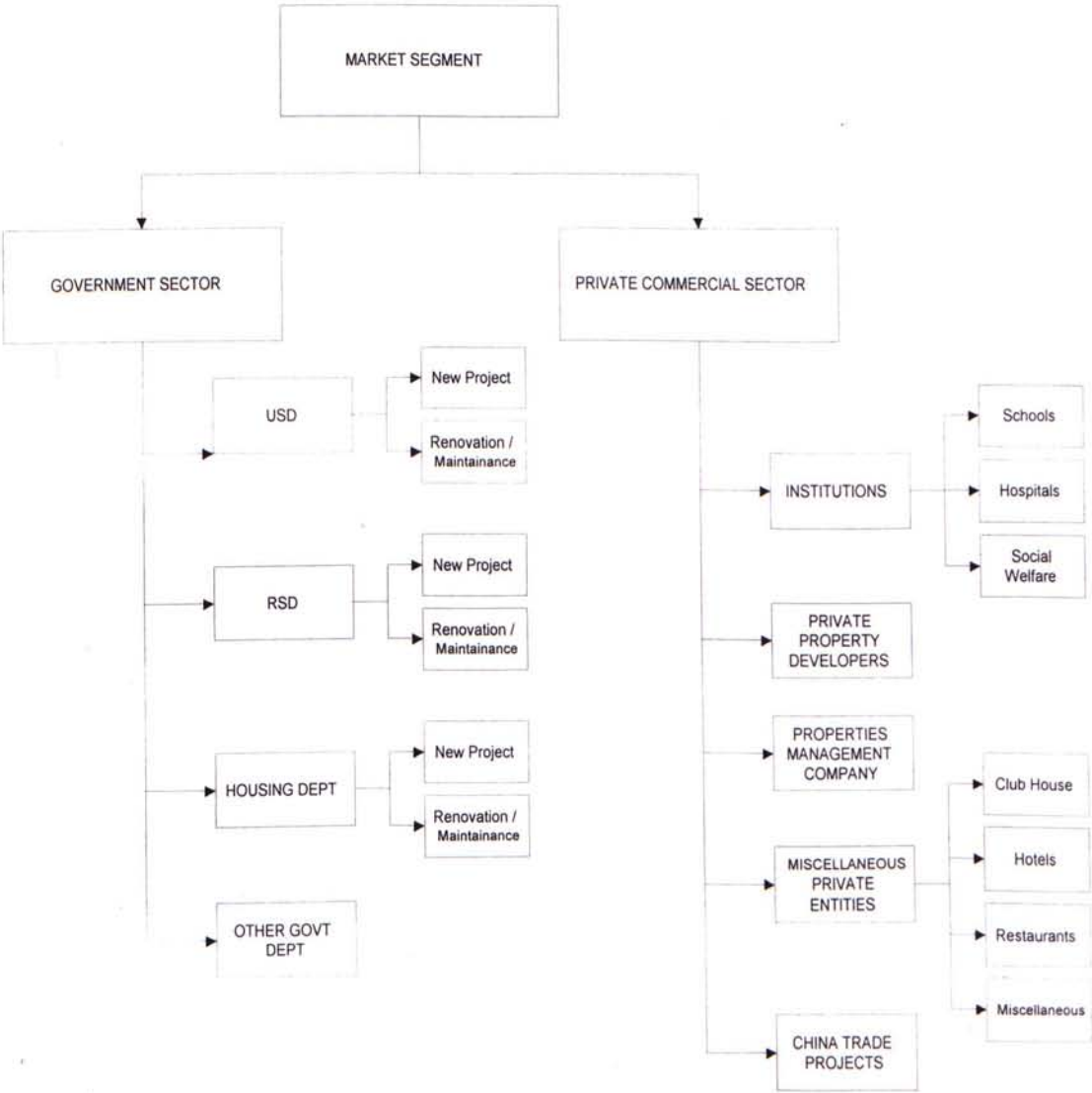
Market Segmentation

TP has grouped its customers based on the following characteristics :

- Nature (government, private profit-making organizations, or institutions)
- Company size
- Company location
- Ordering policies
- Buying center characteristics
- Benefits sought

TP has segmented the market into two major market sectors, which are the government sector, and the private commercial sector. Each major sector is again divided into smaller segments. Exhibit 6 shows the market segmentation of the company.

EXHIBIT 6
MARKET SEGMENTATION OF TP

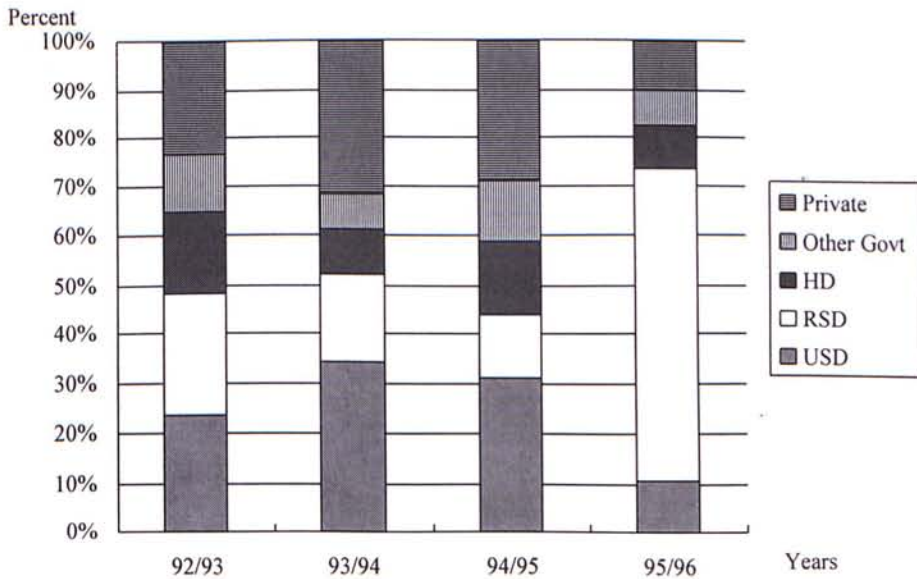


The government sector is divided into four groups of clients namely USD, RSD, the Housing Department and miscellaneous Government departments. Each group of client is segmented again into smaller groups by different regions or districts. Specific programs and strategies are develop to meet the needs of the different districts in different government departments. For example, the USD Kowloon East Region emphasize on product durability, as vandalism is a serious problem in that region; while Hong Kong West Region need products which are colorful and design-oriented as the districts are at the centers of the city with many tourists and visitors traveling.

The private commercial sector is divided into five major groups: the first group includes institutions such as schools, hospitals, social welfare or charity communities, the second group is the private developers, the third group includes club houses, and hotels, the fourth group is the properties management companies, and the last group is the China trade projects. In the group of private developers, each individual developer is a distinct segment as each of them has its own selection criteria and buying process. Each of the remaining groups is a homogenous group which shares very similar characteristics.

In the year 1995/96, the government sector has contributed 88 percent of the total sales of the RS Department. The private sector has contributed about 35 percent to 40 percent of the total sales of the Department from the year 1992/93 to 1994/95. However, the performance of this segments dropped in the last three years while the performance of the government sector increase drastically. Exhibit 7 shows the sales distributions of different segments in the past four years in the department.

EXHIBIT 7

SALES DISTRIBUTIONS BY MARKET SEGMENTS
FROM 1992/93 to 1995/96

Source: Internal information from TP Co. Ltd. - RS Department, 1996

Competitiveness

Actually, competition became one of the major threats to TP in the industry from the late 1980s onwards. From 1986 to 1989, TP had been making great profit by getting several large deals in selling the recreation and sports products in Hong Kong. Its major principal - USLS had been the market leader in the playground equipment industry at that moment, and had introduced important playground designs and concepts in their products. This had helped TP achieving very prosperous years in that period. TP had grasped about 80 percent of the market share and the gross profit can achieved up to 50 percent. The direct competitors for TP are those suppliers carrying similar or the same product range. These major competitors in the market include PS Co. Ltd., SF Ltd., WK Co. Ltd., CH Co. Ltd. and JT Co. Ltd. Besides JT, which is a local manufacturing company, all the other companies are exclusively representing brands of similar products from overseas.

Compared with TP, these companies carry a much wider range of products which are suitable for the same client base. If the product range of the company is more comprehensive in terms of the width and the depth of product ranges, their competitiveness increase since they can offer a package of products for the same project to the same client. This practice is usually welcomed by the client because it will save them a lot of time and energy to source suitable products from different suppliers. Moreover, this also helps the client to save workload in contacting suppliers for the maintenance of the products in the same site. Just like the existing "one-stop shopping" marketing concept, the client can buy all the things they needed under "one roof". The table in Exhibit 8 below can show the competitiveness of these suppliers in terms of their product range.

EXHIBIT 8

COMPETITIVENESS OF SUPPLIERS IN TERMS OF PRODUCT RANGE

Product Range	TP	PS	WK	JT	SF	CH
Outdoor playground equipment	O	O	O	O	O	O
Safety matting	O	O	O	O	O	O
Garden seating/litter bin	O	O	O	O	O	O
Shelter/Pavilion	X	O	X	O	O	X
Outdoor sports surface-synthetic	X	O	X	O	X	X
Outdoor sports surface-artificial turf	X	O	X	X	X	O
Outdoor hard sports surface	X	O	X	X	X	O
Running track	X	O	X	O	X	O
Jogging track	O	O	O	O	O	O
Spectator seating	O	O	X	O	X	O
Retractable seating	X	O	X	X	X	O
Water play equipment	X	O	O	X	X	X
Indoor play equipment	O	O	O	X	O	O
Fitness equipment	X	O	X	X	X	O
Indoor sports flooring-synthetic	O	O	X	O	X	X
Indoor sports flooring-wooden	O	X	O	X	X	O
Protective wall padding	O	O	O	X	X	O
Sports equipment	O	O	O	O	O	O
Changing room partition/locker	X	O	O	O	X	X
Electronic Score Board	X	X	X	X	X	O
Golf Equipment	X	O	X	X	X	O
Gymnasium Equipment	O	O	O	X	X	O

Source: Compile from primary interview and secondary data.

Besides product range, each of these companies has its own core competencies to differentiate against others. Each of them has particular strength, and is strong in specialized target markets. Like JT, it is very strong in the Housing sector of government as it has the capacity to fabricate local spare parts and can respond quickly to resolve all the maintenance problems for the existing recreation and landscape facilities of the housing estates. WK is very strong in its indoor play equipment product line as the product design is innovative and they have established a reputation in the government sector for this. PS has its good product quality and customer service, while CH, JT and SF can offer very low price products.

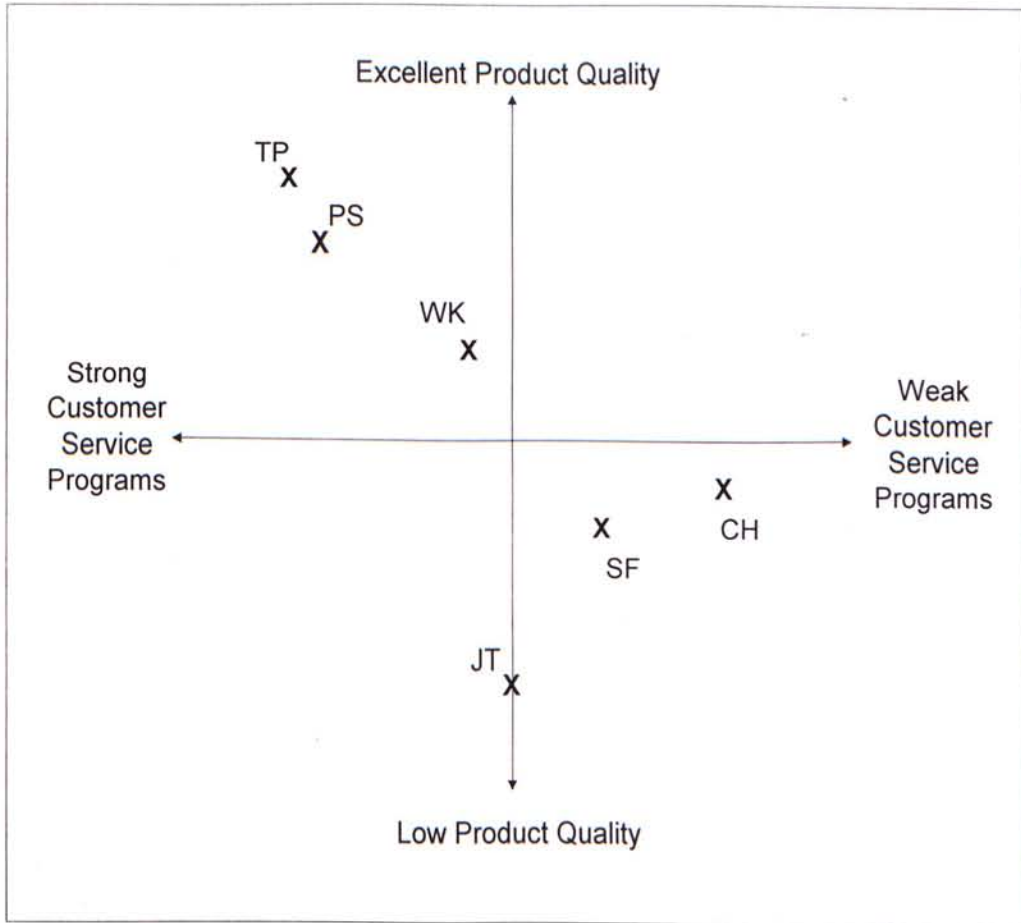
When we look at the perceptual map in Exhibit 9, we can understand better the positioning of TP and its competitors in the market in terms of product quality, price and customer service programs. This represents how TP is perceived by customers generally in comparison to other suppliers in the market.

Among the above competitors, PS is one of the privately-owned companies with the longest history in the market since 1978. PS has a very stable and keen management team, and it has the most comprehensive product lines for the middle to high-end market. Capturing this key strength together with its high product quality and customer service, PS is so far the toughest competitor to TP in the government sector.

Whereas in the private sector, CH, SF and JT are the major competitors to TP. As shown in the above diagram, the quality of products and also the price level of these three companies are the lowest. As price level will be the major criteria to determine the winners and losers in the private sector, even though their customer service is weak, they become the major competitors to TP in this market sector. There are also some other competitors working in smaller scale, they are insignificant in terms of their market share and do not create direct threats to TP's daily business.

EXHIBIT 9

PERCEPTUAL MAP AND POSITIONING OF TP AND ITS COMPETITORS



Source : Adapted and modified from Morris, M. H. Industrial and Organizational Marketing. New York: Macmillan Publishing Company, 1992.

CHAPTER III

INDUSTRIAL ANALYSIS

Environmental Analysis

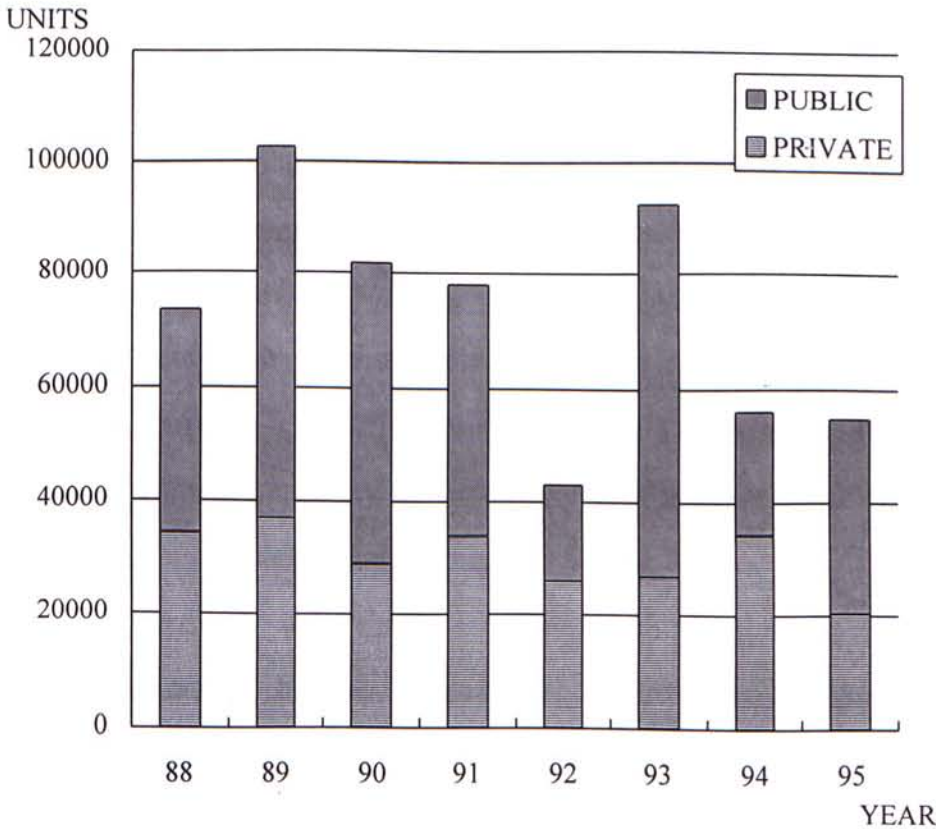
From 1960's onwards, the development of recreation and sports have sharply increased. After the riot in 1967 by the youths, Hong Kong Government realized the importance of provision of recreation and sports activities to the youths with age between 15 to 25. In 1974, the Government set up official department to provide to the fullest possible extent physical recreation and sports activities in each district. In the mid 80's, the government had assigned the responsibility of provision of recreation and sports activities and facilities to the two Municipal Councils.¹ The two Councils has kept on arousing the public's awareness of the value of sports and physical recreation. Wide range of "Sport-for-All" programs were staged for different ages groups and both the abled and disabled.

In the 70's, the Hong Kong Government began to execute public housing policy. The Housing Authority has become one of the major consumer of parks and playground facilities. The private property market began to be prosperous from 1980s. The number of domestic units built by private sector increase from 24,995 in 1980 to 34,500 in 1988². The boom of the property market has created huge demand for recreation and sports facilities, which become one of the competitive edges and marketing tool of the private developers for their property developments nowadays. Exhibit 10 summarize the change of new residential housing supply in the period.

¹The Changes in Provision of Recreation and Sport Services with the Economic Growth in Hong Kong. Hong Kong Recreation Review 8 (January 1996): 37.

² Hong Kong Economic Report (June 1981) and (May 1990).

EXHIBIT 10
NEW RESIDENTIAL HOUSING SUPPLY IN HONG KONG



Source: H.K. Economic Report, 6/91, 5/90, H.K. Monthly Digest of Statistics, 12/96, p52.

Economic Environment

The GDP growth in Hong Kong has contributed to the provision of recreation and sport facilities by the government in the past 40 years. In the early 1990, a "Bull" property market was created in Hong Kong which has brought to a high demand and consumption of recreation and sports facilities by the private developers for their properties to attract customers. However, property prices had dropped by 30 percent in 1994 when government increased the prime rate in order to stop the speculative activities. Private developers began to use less or cheaper recreational facilities in their properties development in order to save cost and maximize profits.

Socio/Cultural Factors

From late 1980s, the living standard of Hong Kong people has upgraded as its economy is well established, people are more health conscious and understand the need to spare time for leisure for themselves and also with the family. They demand leisure amenities near their residence so that they can relax after their tough works. Luxury activities like playing golf is no longer the wealthy people's privilege. Public golf course and golf simulator in private club house are also available now. Swimming pools are not only for swimming, but there are leisure pools with massage and water play equipment for the whole family to play together. Facilities are provided for different age groups. Therefore, the demand of the public is growing in terms of both quality and quantity of facilities. More new variety is also a major competitive edge for companies in the industry.

Another important social change is people are much more concern about the welfare of the disabled and handicapped. There are charity or social welfare organizations being established to fight for benefits for this group of people. As a result, the institutional sector has increasing demand for recreational and leisure facilities for the disabled. When government build these facilities, they must take care this group of people so that they will not be ignored or discriminated. When the companies supply products to the government, they should take into account whether their product range can meet this need.

Demographic Factors

Hong Kong's population is growing very fast and the population in 1996 is 6,580,800. There is still a strong demand in housing and the government will continue to build or redevelop existing recreational facilities to meet the need of the huge population.

Because of the crowded population, the facilities will have high usage rate and vandalism is serious in most public areas. The facilities and equipment for outdoor

use must be durable and maintenance free in order to resist the high humidity and heavy rainfall in Hong Kong. Moreover, as population is crowded and different districts are easily accessible, customers like architects, private properties developers, facilities managers, and government officers would like to have their own facilities to be unique. Specific product design and theme design for parks and playgrounds become a popular trend. Therefore, products supplied to the market must be with high quality, and with wide variety of designs.

As the urban area is fully occupied, many private or public housing are being built in rural areas where the property price will be lower. Moreover, more people shift to the north for their businesses and houses, properties developers are building more apartments in the Mainland China with leisure and recreation facilities. China is becoming an important market.

Technological Environment

Technology is changing the way marketing is done. Products are designed and presented using computer-aided design (CAD), which has improved efficiency, accuracy, cost control and safety concern. While prices and inventory levels can be managed through centralized point-of-sales systems for the industry.

The technology development in Hong Kong has allowed some local trading companies evolved themselves in their business directions from trading to production independently or through joint venture with technologies from other Western countries. By doing this, these companies can develop their own products and design, which are much flexible and suitable for local markets' needs and requirements. These companies which have their control over production can therefore have a better competitiveness in the market.

Legal Environment

Nowadays, 40 percent of the total land area of Hong Kong can be designated as country parks and there is a standard of 15 (in the urban areas) to 20 (in the New

Towns) hectares of open spaces per 100,000 population. It has also been specified that the usage of these open spaces should be in the ratio of 2:1 active to passive.³ Moreover, the government has established the Hong Kong Planning Standard and Guidelines which set up a basis for calculating the number of facilities required in terms of population figures.

Customers

The market can be basically divided into three sectors. The first sector is the Hong Kong Government. This includes all the government departments, and the major customers are the Urban Services Department (USD) and the Regional Services Department (RSD), which are the executive arms of Urban Council and Regional Council respectively; the Architectural Services Department (ASD), the Territory Development Department (TDD), and the Housing Department which works for the Housing Authority.

The second sector, consisting of commercial, profit-seeking organizations, these includes many local private property developers such as Sun Hung Kei Properties, Cheung Kong Properties, Henderson Properties, Kerry Properties, The Housing Society, and etc.; and other properties management companies, private club house such as Hong Kong Jockey Club and some private organizations.

The third sector comprises all public and private service organizations and institutions, such as universities, schools, hospitals, museums, cultural centers, stadiums, trade associations, and church organizations. These organizations mostly are non-profit making, and operate under social pressure.

Government Sector

The Government is a major sector for recreation and sport products. USD is the first government division set up to mainly plan for and manage public amenities

³ The Changes in Provision of Recreation and Sport Services with the Economic Growth in Hong Kong. Hong Kong Recreation Review 8 (January 1996): 37.

for public use. The major aim of the Department is to upgrade the quality of life of the general public by providing high standard, safe and adequate facilities to them. Their covered areas of services include public health services, cultural services, and leisure services.

The Leisure Services Branch of USD (with a staff of 3,100) provides and manages a myriad of high quality recreation and amenities venues and facilities, such as public parks, sitting-out areas, playgrounds, swimming pools, beaches, squash and tennis courts, sports grounds, indoor sports complex and indoor stadia such as the Queen Elizabeth Stadium and the Hong Kong Coliseum, and so on. Appendix 4 summarize all the recreational and sports facilities and provided by the USD and RSD.

The Council's Five-year Capital Works Programme is "Rolled forward" on a yearly basis to ensure that it meets current public aspirations and needs. In 1995/96, the Council has invested HK\$685 million in 20 projects, which included multi-purpose leisure and sports complexes, playgrounds and museum. Furthermore, there are 136 more capital projects either being built or under planning, at a total estimated cost of HK\$7,062 million⁴.

In 1986, the Regional Council (RC) was established with the Regional Services Department mainly carries the duty similar to USD, but the area that RSD serves is the nine districts in the New Territories. The Leisure Services Division of RSD provide similar facilities and services to the public. In 1995/96, RC has completed 14 major projects costing HK\$260 million. Among them are nine parks and open spaces, and indoor recreation centres. Under construction at present are 32 major capital works projects costing about HK\$4.1 billion. The Council will be spending HK\$8 billion on some 232 capital works projects into the turn of the next century⁵. Appendix 5 lists the major projects under construction and at planning stage. Moreover, the two departments both have substantial budget to renovate and redevelop their existing parks, playgrounds and indoor arenas.

⁴ Urban Council Annual Report 1995/96, p. 9.

⁵ Regional Council Annual Report 1995-96, p. 76.

The Architectural Services Department (ASD) is responsible for designing and monitoring the construction of all capital works and facilities for all the government bodies such as the USD, RSD and other public schools, clinics and hospitals, except the Housing Department. Therefore, ASD is an important works agent which is mainly responsible for selecting materials and specifying products. The department consists of professionals such as architects, engineers and quantitative surveyors.

Another major government division is the Housing Department. As the Hong Kong Government began to develop public housing since 1973, it had established the Housing Authority to take up the responsibility for long term planning and management of public housing. As the quality of these housing estates is upgraded on and on, the facilities they provide are also improved. Nowadays, many public housing estates have facilities such as public outdoor playgrounds include children playground and basketball courts, skyways, rest gardens and fitness stations.

As the USD and RSD are responsible to its constituents, they are dedicated to safeguard the rights of the public as ratepayers with particular reference to the provision of efficient and economical services to the public. Therefore, the government bodies will choose high-end products which are safe, with international standard and durable. Budget in most cases is not a constraint. Their most concern is the product quality, after-sales-service and maintenance service that the supplier can provide. These become the major selection criteria to safeguard the interest of public and to reduce the chance of their complaints.

Private Sector

The second market sector are those private commercial organizations who are profit making and therefore mostly are price oriented. The private developers have to provide package of recreation and leisure facilities as a selling point when they promote their residential developments. The items they provide for their tenants will obviously become much limited when compare to the government sector.

Most companies, except those large properties developers like Sun Hung Kei, Cheung Kong and Henderson, will choose the middle-end or even low-end products because they have to cut down the cost of their residential developments so as to maximize profit. Price will therefore be the first criteria to consider in the buying process. Other factors includes delivery, product variety and service. However, if the residential projects are very high class and prestigious, the developer will also put product quality as the major criteria.

Institutional Sector

The third sector is the institutional sector. In Hong Kong, the expenditure of most of these organizations are sponsored by the Government. However the budget will be tight compared to the government sector. In most cases, as these institutions are responsible to the funding parties and the general public, they must provide safe and durable facilities. Therefore, product quality, service and price are the three equally important criteria in the selection process. In Exhibit 11, we can see the comparison of the demand for recreation and leisure facilities among these three sectors.

In conclusion, the government bodies and some institutions have to depend on these companies to provide assistance to help them solve problems such as smoothing public complaints, speeding up the completion of the projects without going through the long and complicate government or institutional procedures. Therefore, the client of the government and institutional sectors and the suppliers are mutually dependence. However, in the private sector, the suppliers of these products will have no bargaining power at all.

EXHIBIT 11

COMPARISON OF RECREATION AND SPORTS PRODUCTS DEMANDED BY
THE GOVERNMENT, PRIVATE AND INSTITUTIONAL SECTORS

Product Item	Government Sector	Private Sector	Institutional Sector
Children playground	H	H	M
Rest garden	H	H	L
Ball courts*	H	H	L
Swimming pool	H	H	L
Running track	M	NIL	L
Jogging track	M	L	L
Aerobic/dance room	H	M	M
Fitness centre	H	H	L
Golf driving range/simulator	M	M	NIL
Sauna facilities	NIL	H	NIL
Soccer pitch	M	L	L
Sports ground	M	NIL	L

Source: Compiled from various sources of secondary data, interviews and observations.

* Ball courts include basketball, badminton, volleyball, squash, tennis and handball.

H - High level of demand

M -Medium level of demand

L - Low level of demand

Suppliers

In the late 1970s and early 1980s, many people have chances to study overseas or being sent for training in England by the Government and many British-based conglomerates in Hong Kong. At the same time, the Asian countries were having increasing importance in world economy. The real GNP growth of the four little dragons and Japan is higher than Europe and US. International marketing to Eastern countries became an unavoidable trend for the multinational enterprises to expand and grow. These Western enterprises entered the market of Hong Kong by different modes such as indirect export or direct export through foreign distributors, agents, or even later by foreign production such as licensing and joint venture.

As the products are industrial products which include warranties, adjunct services and installations, many manufacturers choose the mode of entry into the market by sole agents or distributors, in order that their agents can be responsible of their product warranty and installation can be monitored and controlled by the manufacturer according to their specifications.

European countries and the United States are the major manufacturers and suppliers of leisure and recreational products. In Europe, these products are mainly provided by England, Germany, Denmark, Netherlands which emphasize on industrial development, and have longer history in developing sports and recreational activities. Nowadays, it can be said that the most popular brands of these products are mainly come from U.S. and Europe, some come from local production, Japan, Canada and Australia. Exhibit 12 shows the country of origin of different recreation products representing by agents in Hong Kong.

EXHIBIT 12

COUNTRY OF ORIGIN OF VARIOUS RECREATION PRODUCTS

Product Items	Number of Brands from different countries			
	USA	U.K. & Europe	Asia	Others*
Outdoor children play equipment	8	5	1	1
Outdoor safety mat	-	2	4	-
Indoor play equipment	2	3	-	-
Water play equipment	3	2	-	1
Indoor sports flooring	5	4	1	1
Outdoor sports surface - synthetic	6	4	3	2
Outdoor sports surface - artificial turf	2	4	-	1
Outdoor furniture	10	6	2	1
Fitness equipment	5	4	-	-
Sports equipment	2	4	1	1
Spectator seating	3	2	1	1
Rock climbing equipment	-	4	-	1
Sauna facilities	1	3	-	-

Source: Compiled from various sources of secondary data, interviews and observations.

*Others include Canada, Australia, New Zealand

In general, these manufacturers will choose a company which has good financial support, a good connection with the potential clients, and with experience in handling similar products. In order to ensure and maintain a smooth and secure cash flow, these manufacturers will normally sell in FOB terms with their overseas agents, so that they do not have to bear the risk of delivery or during the transportation. The payment are usually settled by wire transfer (cash advance) before shipment, or they can settle the payment by Letter of Credit (L/C).

In dealing with manufacturers in these markets, local trading companies have to bear the risk of exchange rate and delivery. Normally, these agents have to buy

insurance for freight. In order to support the foreign agents to sell their products, generally special agency discounts will be granted for their agents to sell in their local markets. Agency agreement will be signed in order to protect mutual benefits such as the agent will not sell another brand of same product range which can create competition and trigger their principles' interest. The principles should provide free samples and catalogues and other suitable selling tools to their agents. Moreover, some principles even have marketing fund to support local marketing and promotion activities.

In the very beginning stage of internationalization, manufacturers' products are all custom made for their home countries. All the product features such as color, shape, size and packages are according to their home countries' requirement and standard. Moreover, as their home market, especially in U.S., is large and create the majority of sales, these manufacturers will take care the benefits or opinions from their domestic agents in first priority.

However, the economies of their home countries were facing with recession in the past few years, and the international market is becoming more and more important in their sales volume. Moreover, the China market is opening with giant demand and the economies of South East Asian market is booming. These principles are putting more emphasizes in Hong Kong and South East Asia, by setting up local regional offices, or special international sales team to concentrate on these markets. Agents here have more bargaining power in payment terms, discounts, sales terms and services. These have helped to improve their agents' competitiveness and services.

As more and more trading companies evolved from the market, the bargaining power of these agents to their principles depends a lot on their sales volume. Sales is the most important performance, while a long term business relationship becomes less important for the principle to evaluate their agent. It is not uncommon for the manufacturers to change their local agents if they find that their sales performance cannot meet their targets.

Competitors

After the golden period, competitions out-surged and gradually went strong and stiff. It was because of the evolution of new overseas manufacturers producing products with competitive quality and design. These manufacturers captured the copycat strategies to imitate the product features of market leader and followed their marketing strategy to go global. The competitors' products are of similar product design and features, but being offered at the very competitive price level. Moreover, as the products of market leader had been well accepted by the market, copying strategies save much marketing effort of the competitors entered. Another reason was the emerging new trading companies in Hong Kong involving in this field but the potential market was not enlarged. Supply is more than demand. The new firms squeezed the high profit and captured some of the market share.

Among the direct competitors described, they can be classified into private-owned and public-owned companies. CH, is a subsidiary of a Singapore publicly listed Group, and SSA is also a subsidiary of a Hong Kong well known publicly listed property developer. All the others are privately owned companies. The major difference of these two types of companies are the characteristics and style of their management teams. For the privately owned companies, their owners are always the sales director or director, who must be stable and are very concerned in their own business with daily management. For the publicly owned companies, the management teams are employee themselves.

The success of a company depends significantly on the quality and stability of the management team. As mentioned before, a stable management team can help the company to establish reputation and connections in the market. These are crucial success factors for getting distributorship of a good product, and they are also important for business development. A stable and bright management team therefore is very important for a smooth development of business in the industry.

Entry Barriers

In the industry, there are some forces which restricts new comers enter into it. When a new company wants to set up its business in the industry, it must firstly get a source of suitable products. It can either represent overseas products, or set up local production. However, as many overseas suppliers have already got local agents, there is a constraint of getting enough and suitable product range from overseas suppliers. When setting up local production, technology and capital will be major constraints.

Even if the company emerged into the market as a trading company, it needs strong capital and sufficient cash flow. This is essential as there is long payment period for contracting business. Normally, these trading companies have to pay their principles cash in advance before shipment or by Letter of Credit at 60 days maximum against bill of lading. However, they can only get partial payment (50 to 70 percent of contract sum) when they deliver the products to sites. The full payment will not be settled until installations are completely finished which takes one or two months more.

As these industrial products need professional service and installations, a competence technical team is also critical for the establishment of a new company. Even if the new comer has all the above conditions, clients will not have confidence of product quality when there is no job reference of the new products in the market.

Critical Success Factors for the industry

After analyzing the industrial environment, we can identify the key success factors of these companies in the industry as follows :

- Strong capital and cash flow
- Well-established connection and relationship with the clientele
- Comprehensive product range which can penetrate into the market and capture the market share
- Strong technical support
- Well-established relationship with principles

CHAPTER IV

SWOT ANALYSIS

Internal Strengths

Being a subsidiary of a public listed property developer, TP has its strong financial backup from its mother company. As the building industry is getting more and more competitive, many main contractors have to bid the construction tenders at very low price with minimal profit. In some cases, the job is not profit making and the contractors even have to bear loss when there is liquidity damage or claim for low quality by the client.

This has create a situation that many contractors have to bear a heavy financial burden in running their business and as a result, debts are incurred in paying their sub-contractors or the building material suppliers. Being a supplier or a sub-contractor, TP is able to get debts from its mother company to finance its payment to its overseas manufacturers and also its sub-contractors, even under the situation of heavy debts from its buyers. Last year, the cumulative debts over 90 days for the department is one third of its total sales volume. TP has a great financial support from its mother company that a good cash flow can be maintained. Moreover, a good financial base can also help a company to survive under economic recession when the performance of the company is not good.

As the department mainly concentrates on government projects, the stable background of a public-owned mother company can give the customers in the government sector confidence of financial backup for good service and support. Actually, in the year 1992, when the company firstly introduced a brand of maple sports flooring into the Hong Kong market, the first job was done for one of the

government indoor game halls. As the installation had some mistakes, it caused severe damages to the wood flooring and the different parts of the flooring have fell apart after the installation. The company then immediately bear at its own cost air delivered a bulk of new materials and changed the whole flooring. This has gained back the confidence of good service and reputation of a responsible supplier for the government.

Nevertheless, the company also has substantial budget for marketing fund to sponsor different types of activities organized by the government and also different non-profit making organizations which are closely linked to its client base. These activities include the "Flower Show" organized by the two Councils each year. The company will either sponsor a set of play equipment and some outdoor furniture for the children to play, or sponsor cash for the function. The other organizations sponsored by the company include the Hong Kong Institute of Landscape Architect with members who are the landscape architects, the Hong Kong Recreation Management Association, and the Plant and Horticultural Association with members mainly from the government sector.

As TP has got over 15 years experience in the industry, it has established itself with a reputation of high product quality and good services. It has accumulated numerous job references, and has got a group of loyal customers. As the product nature is technical and safety oriented, job reference is a very important criteria for selection. Moreover, the history, background and also job reference done by the company are also attracting points in winning agency from overseas manufacturers. As a matter of fact, when we focus on its product line of playground equipment, the company has its first or second position in the market share in terms of sales volume in the past three years. While its maple wood flooring has won at least 50 percentage of the market share in 1995 and 1996.

Being a subsidiary of a large public mother company, TP can also attract professional and experienced personnel from its competitors. As a matter of fact, half of the existing sales personnel have worked for one of its competitors. This can surely

help the business as these personnel are already well-trained and with established customer relationship.

Another strength point is that most of TP overseas suppliers have given full support to their agent in terms of marketing and promotional tools, technical advice, pricing strategy by offering discounts, and confidence in the mutual relationship. For example, the playground equipment principle organizes an international sales meeting annually and it pays for all the accommodation and other expenses for its agencies during the meeting. In the meeting, training will be offered to help the agencies to understand more about the new product development and how to market them. It will also provide technical training such as AutoCAD design, new computer presentation and management software to support the business of their agencies.

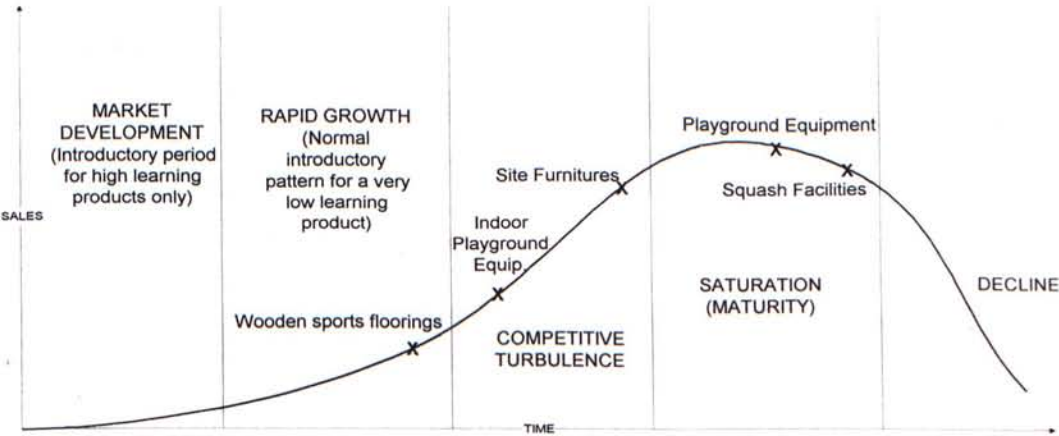
Internal Weaknesses

TP has got a very narrow product range in its Recreation and Sports Department. In most cases, it cannot provide enough product variety and it cannot offer a full product range for a particular project and this in turn affect its competitiveness. As mentioned before, architects will prefer selecting from one particular supplier to save their time in material selection and the client will prefer to buy a full package of material from one particular supplier in order to save time and work when they manage the facilities.

For parks and playgrounds, TP has got products of playground equipment, safety matting, and parks furniture such as sitting benches, litter bin and bicycle rack. Although the product line is quite a full range, there are only one or two brands of each product line, and therefore they have limited series of designs. As most architects or designers concern a lot on the designs and functions of these products, the design variety of each product line must be wide for selection. In many cases, TP is not being specified because of its limited variety within its product line. Moreover, TP still lack other facilities such as pergola or pavilion in order to give a comprehensive product line for parks and playgrounds.

For sports facilities, there is a brand of indoor maple sports flooring, and some indoor and outdoor sports equipment sold by TP. However, the sports equipment supplier cannot provide enough technical support and the product range is limited. TP still lacks a full package of products including wall padding, spectator seating, electronic score board, and full line sports equipment to provide for ballgames arenas. Moreover, the company has no product line for fitness center, swimming pool facilities, golf course, outdoor sports surface, artificial turf and etc. Basically, it has difficulties in proposing products for private residential club houses because of its narrow product line. When we look at Exhibit 13, TP has products at their different stages in their product life cycles, but it lack products that are at the market development stage. Its existing products will soon develop to their mature or decline stages of their life cycle when the taste and living style of people change within two or three years. As the introductory period of products in the industry needs about two years, it must introduce new products immediately in order to maintain or to increase its sales volume.

EXHIBIT 13
STATUS OF PRODUCTS IN THEIR PRODUCT LIFE CYCLE IN TP



Source : Adapted and modified from: Wasson, C. R. Dynamic Competitive Strategy and Product Life Cycles. Austin Press, 1978.

A weak technical team is also a reason for the slow and late development of product diversification. The existing technical team is only familiar with the technical issues of play equipment, park furniture, and maple sports flooring, they lack relevant knowledge and experience in exploring new product line.

Besides product, the company also has its weak position in pricing. As the company target for the middle to high end market, all of its products have a relatively high market price which has hinder its competitiveness especially in the private sector. For playground equipment, the company is recognized in the market with the highest price as the cost of the product is the highest. The high price is also because of a tight control on the gross profit margin of each order by the mother company.

Another weakness of the company is the unstable personnel. As the company is a public-owned company, the managing director as well as the department manger are employees themselves. Their motivation is generally from the incentive scheme and job satisfaction. In the past five years, the personnel of the Managing Director has been changing once and that of the Department Manager has changed for four times. The Managing Director was fired four years ago, and as a result, the top management team as well as other staff have all left the company. Comparatively, its competitors have more stable personnel at the management level as the bosses themselves are the owners, as well as the employers, who will be very concern about the planning and the future of their business.

Even at the sales level, the turnover rate is great. In average, a sales staff works for a maximum of two years will leave the company. There are several reasons for this. The first is that the incentive scheme offers a low commission rate for the sales staff. There is also no over-ride commission granted to those sales staff who has supervisory role. As the sales staff always have to overtime work until seven to eight at the evening, such an incentive scheme will not have enough motivation for the staff in the long run. Moreover, the office of TP situated in a remoted area in Chai Wan, with unsatisfied surrounding industrial area, traffic is not convenient and it takes long hours in traveling when the sales staff make their daily sales calls. This has wasted a

lot of time and therefore has added burden on the sales staff's work load.

As discussed in previous section, a stable personnel with enough experience is essential for a good client relationship and therefore the success of a company in the industry, a shifting of top management as well as the sales personnel has severely affected the competitiveness and the business of the company.

The company has different divisions for different product ranges, limited resources and support have to be shared among different divisions. Each division compete with one another for these resources. Support from the top management is very important to the moral of every department. In GT Group, as the group mainly emphasize in private properties and the commercial market, much more attention and emphasis will be put into those departments which concentrate in this area. As RS Department is mainly emphasized in the government sector, not much attention from the top management is put onto it.

Another support for the department is from the Managing Director. As he was promoted from the Building Product Department, he is familiar only with the product, client and the operation of that department. He has little contact and knowledge of the industry of recreation and sports, and therefore is not very interested in the development of the department.

Moreover, each department handle their jobs independently. These include sales and marketing, source of new products from each department existing product line, hiring and training human resources, controlling inventory and overhead, solving technical issues, and etc.. Besides daily administration and general personnel issues, there are no centralized departmental functions to ease the work load of each department. Even the accounting department serve the function of financial control and book keeping only. It can be said that each department is running their business as an individual company unit. The burden of the work load are bear by the department managers who are responsible for supervising the sales team, controlling cost and overheads, training new staff, business planning, marketing functions, negotiate and communicate with supplier, expanding product lines, preparing for

budgets, and all the administration and management of his or her own department. This organizational structure cause heavy burden to the department manager and therefore hinder the growth of each department. This is also one of the reasons for the high turnover rate of the department manager in RS Department.

However, when looking at its competitors, all of their companies are established to concentrate in this industry. All the company resources are being put into the sales and marketing of recreation and sports products. There is no diversified effort in competing for enough resources.

Being a subsidiary, although TP has gained advantages of financial backup and a reliable image from its mother company, it has to do its business under strict control by the group. The managing director of TP reports directly to the board of directors of the group. For daily operation and administration, the financial controller of the group looks after all the procedures, gives signing approval of budgets and assignment of personnel. All the financial documents including invoices, cheques, and other documents related to inventory have to be signed by the accounting department. There is also tight control over the gross profit of the company. Each department has to make a sales budget for its target sales, gross and net profit for each financial year. Whenever there is order with gross profit lower than the budgeted one, the department manager has to explain in writing. This has therefore made doing business less flexible.

Future Opportunities

From the year of 1994, the properties market in China began to boom rapidly. Many Hong Kong developers also began to construct residential and commercial buildings in the mainland China. Everyone notice that China, with a population of over 100 billion, is a huge potential market for all kinds of building materials.

As China is aggressive in being an internationally recognized developed country in economics and sports, it has began to bit the right to organize Olympic Games 2000 in 1993. After that, the China authority responsible for sports and

recreation started to have delegations going to Hong Kong and other more developed countries to visit and inspect the up-to-standard sports and recreational facilities. The businessmen in China also traveled around the world to visit different kinds of exhibition and seminars. Afterwards, these authorities have also invited delegation and government officers from Hong Kong to organize joint seminars or discussion groups in the Mainland China. From the year 1997, China will also develop its own national teams in basketball, just as the NBA basketball teams in the United States.

As a matter of fact, from the year of 1994, the sales volume that come from China projects for the RS Department has been growing each year from 4 percent in 1994 to 10 percent in the year 1996. The market in China is still expanding with huge demand.

Other than the huge market potential of China, it can also provide unlimited resources of materials. China has abundant natural and industrial resources for different kinds of industry. There are cheap labour and low rental fee which offers good opportunities for establishing low cost production base. By manufacturing in China, a company can control its own source of material and the cost of production. In the meanwhile, there are already domestic manufacturing plants producing outdoor synthetic flooring material, park benches and also playground equipment. Although the production of such products has just begun and the technology is still poor, it will not be too far away for the manufacturers to learn by experience and improve their technology and product quality.

When we look at the local market of Hong Kong, the government has been putting emphasis on improving and increasing the recreation and leisure facilities for the public and it seems that the demand will continue even after 1997 when Hong Kong joined its mother country China. The government will continue to improve its environment in order to maintain its image of an international city. Every year, a lot of District Open Space (DOS) and Local Open Space (LOS) are being built in the rural and urban areas. These DOS and LOS consists of children playground, jogging tracks, fitness stations, rest gardens and full of plantations.

In fact, the government has spent more than two billion Hong Kong dollars in 1995/96 for recreation and sports, and the projects and capital works under planning in the coming five years are over twenty billion dollars (Appendix 5). Therefore, the Hong Kong government will continue to be the largest customers in this industry, at least in the short run. Besides, the government often explore new kinds of leisure activities from overseas and bring them to the public in Hong Kong. One of the example is rock climbing. This leisure activity started in Europe in the beginning 1990s and it became popular in Hong Kong in these few years. The government has begun to build sports centers with indoor rock climbing facilities for training and public use. Therefore, whenever there are new leisure activities from overseas, the government will promote such activities in order to offer wide range and new varieties of leisure activities to the market.

As the worldwide demand for leisure and recreation products is high, and the industry enjoys quite a high profit margin in most cases as most products are custom designed, there are more and more new manufacturers enter into the industry. When Britain, Germany and United States have been successful in the industry, there are more and more new suppliers from other countries such as Australia, Japan, Canada and other European countries like Denmark, Holland, Italy and France. In many cases, the product development is quite different among different cultures. For example, the play equipment developed from European countries are more concerned about designs and challenges, while those developed from United States are more conservative and concerned about safety. That is why the equipment from Europe will have more creative design, and are much more challenging.

The increasing source of suppliers also give TP a good opportunity in representing and promoting their products in Hong Kong. The difference of product features among different geographical sources can furnish the company with better selling points and competitiveness if it can source some brands with its unique design and product feature.

Environmental Threats

As mentioned in the very beginning of this report, the environment of the industry becomes very competitive from the early 1990s. When we investigated the number of competitors which carry the same product line that TP also have, where we call these direct competitors, we found that they increase from five numbers in 1986 to fifteen numbers in 1997. From economic point of view, this situation is normal as new entrants enter into the market in order to share profit when they saw the market opportunity.

Most of the new entrants are small private entrepreneur who used to work as employees in the leading companies in the industry. A total of eight numbers of the above mentioned competitors of TP have this background. Many of these employees began to establish their own business when they have gained a good relationship with client and a substantial capital. Actually the existing boss and the employees of one of these competitors used to work in TP for over three years from late 1980s.

Another type of entrepreneur was government officers previously. They worked in the leisure services section and therefore have a good knowledge of the operation of business in the industry. The most important is that they have good friends and previous colleagues working in the government sector who support their business. Three of TP's direct competitors have this background.

The last but not the least, the private entrepreneur began to establish joint ventures in the Mainland China with the principles they originally represented. There are already two companies doing this. They import technology from these overseas principles and make use of the low labour and rental costs of China to establish production plants of safety matting and park furniture. There are also two other competitors who establish their own manufacturing plants in China and make flexible designs to suit local market' need. They even export these products to the overseas market such as US and Europe. The major threat that these competitors cause to TP is that they can make flexible designs, up-to-standard products, but selling at a much lower costs, delivery and maintenance can be done within half of the time frame that

overseas suppliers can provide. Although quality may not be so acceptable in the very beginning, technology transfer can be done easily and through trial and error, quality can be upgraded within only one or two-years' period.

Nevertheless, TP also face the pressure from its principles. Nowadays, more and more overseas principles emphasize on sales and profits only, but not the relationship. Therefore, some principles tend to open their distributorship so that any company can sell their products in the territory. For some companies which sell in flexible pricing strategy, this may be an opportunity. However, as the GT group has strict control over the gross profit of TP's sales as mentioned in the internal weaknesses, TP cannot offer competitive pricing under such arrangement. In other cases, some principles will shift to another agent when it finds that its original agent cannot meet its sales target. TP therefore have to cope with the sales quota pressure from its principles, while facing the stronger and stronger competition.

Problems Identification

After looking at the internal and external business environment of the RS Department of TP, its internal strength and weakness, and the external opportunities and threats, here are the major problems that TP has to tackle in the near future in order to survive in the market :

1. From the beginning of the 1990s, the company has to cope with keen market competition. However, the competitiveness of TP is declining, mainly because of insufficient product line. As market competition gets stronger and stronger, TP loses its market share and therefore its sales volume. When looking at the sales of play equipment from 1992 to 1996 (Exhibit 7), it can be discovered that the sales volume has dropped as well as TP's market share. Therefore, the major problem TP has to cope with is the keen competition and its declining competitiveness in the market.

The good performance of RS Department in terms of sales turnover and net profit in 1996, and also when forecast in the budget of 1997, is mainly

brought by the increase of sales of its maple sports flooring because the renovation projects of wood flooring has a boom in 1996 and 1997. A total of sixteen numbers of government main ballgame arenas are being renovated in the period and all of their floorings have been replaced by the maple sports flooring from TP. However, the product life cycle of the maple sports flooring will grow to maturity stage shortly and the demand will drop, even there will be individual arena being renovated or newly constructed, the consumption will not be so great and it is forecasted that such package orders will not appear again. If TP cannot source new product ranges to promote to the market, its sales will drop sharply.

2. The organizational structure and allocation of resources also has its own problems. First of all, the organizational structure which lack centralized supporting team has led to heavy work loads on individual sales departments. The heavy work load, together with an unattractive incentive scheme has seriously affect the morale of the management, sales, and technical staff of the RS Department. The weaken in morale has resulted in unstable managerial and sales personnel. When looking at the existing sales personnel in the department, half of them are new staff employed for less than six months and they lack experience in the product and the market. The existing department manager has only three to four years experience in the field. The whole team is young and immature. However, its competitors have got managing personnel with over ten years experience in the industry. They have well established customer relationships and bright marketing sense.
3. The unstable internal environment has also created a potential problem. As mentioned in previous section, the Managing Director and Department Managers are employees themselves. There will be political issues which leads to unstable top management level, and lead to an end result of unstable personnel for the whole department or whole company. This was the case happened four years ago in TP as mentioned in the section of internal weakness.

Moreover, the diminishing confidence from the board of directors of the GT Group towards TP is also a problem. Although the RS Department does not have poor performance which worried the Group, the overall performance of the whole company of TP has shaken the confidence of the Group towards the top management of TP. First of all, two of the sales departments have been running lost in the past two years. Secondly, the whole company has incurred serious debt, one fourth of the total sales turnover last year, from its mother company. The situation is not healthy and has alarmed the mother company already. Thirdly, the China Trade Department has been running with great loss in the past two years. All these factors has weaken the trust and credit of the group to the ability of the top management of TP. The mother company has increased its control over TP, and will give more consideration before giving supports. The worst is that this will affect the mother company's decision to keep on owning TP if the poor performance still continue.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

After identifying the major problems of TP, alternative marketing programs and strategic plans are developed for the company's short run and long term development. Each plans will be evaluated and the most effective combinations will be recommended for TP to solve its problems and to achieve its sales goals and the aim of profit making.

Recommendations

The first priority that the company should aggressively undertake is to source new products for the department. It should source more new brands of existing products from different country of origin in order to diversify the design variety for selection. It is essential to source more new leisure and recreation product lines that the company is not carrying in order to increase the sales volume. The strategy for product diversification should be carry out in both short and long run as follows :

1. For playground equipment, it has to source more new brands of products from different countries with different design and styles. The Hong Kong market now demands "Theme" parks and playgrounds so that very playground is special and unique. Clients and architects want their parks and playgrounds to be one of the most special one and with the highest comments, therefore they always like to put new designs of equipment that are different from the regular modular types which are found everywhere in Hong Kong. As TP has established good industrial reputation and experience in the market of playground,

an increase of more new products with unique design and can definitely increase its competitiveness in the market. This strategy should be also applied to other existing products such as site furniture. More new brands with different designs and materials other than the existing brands should be included in the product line to suit different customers' taste.

2. TP should diversify its product range so that it can offer complimentary products of its existing products as a full package to its client for the whole venue.
 - For parks and playgrounds, it should source different styles of rain shelter, pergola and pavilion as these products are essential facilities in the DOS and LOS, and the landscape areas of the private residential properties.
 - For indoor arenas, as it has a good flooring product, it should also sell complimentary products such as retractable seating, fixed spectator seating, wall padding, sports equipment, dividing curtain and electronic score board. Although TP now has a brand of sports equipment, as mentioned in internal weakness, the supplier cannot give enough technical support and its products cannot cover the full range of sports equipment. Therefore, TP has to source another brand of sports equipment which is more professional and provide wider product range.
 - Besides, TP is now very weak in terms of sales in its market segment of private sector. It has to source suitable product range for this sector in order to increase the sales volume. The product range includes golf simulator, indoor fitness equipment, sauna facilities, and indoor play equipment.
 - Moreover, TP can also expand its business share to other public organizations or institutions such as clinic and hospitals, by acquiring relevant products for these facilities. As the Architectural Services Department (ASD) also have groups of architects selecting material for these government facilities, and the procedures of work content for sales and marketing is similar to TP existing client base, the RS Department can utilize its existing sales personnel to sell products to these sectors also. Suitable products include wall protective padding, and portable or permanent seating at waiting areas.

3. It is recommended that TP should explore new methods of sourcing new suppliers for new products. Besides its traditional method of sourcing new suppliers such as visiting exhibitions and shows, writing to suppliers by reading advertisement in magazines, there are other more practical and effective methods :
- Writing letters to Embassy of different overseas countries to ask them to introduce relevant suppliers so that TP can promote their products in Hong Kong.
 - Through the play equipment manufacturer's international sales meeting, the management of TP can meet and know people from other international agents. These agents will normally carry other lines of products in their territory. By talking to these agents, TP can know more source of new products, and also their quality through the experience of their existing agents. When TP thinks these products are suitable to be included in their product line, TP can also ask these agents to introduce their principles of these product lines to TP. The advantage of this practice is that most overseas manufacturers will have no knowledge of Hong Kong market and the trading companies here. If TP write letters on its own, these manufacturers may not response as they have no knowledge what sort of company TP is and have no confidence to sell through it if they are not going to make any trip to the market to understand the situation. Therefore, this practice of recommendation is more effective and efficient in order to get the right products successfully.
 - One more alternative method is to observe any of the existing competitors who are not doing very well in their business, write letters to their principles to see whether their principles aware this problem and want to review their agency agreement. Identify the chances to win the agencies, or share the agencies by territory or market segment from these losers who have bad performance in terms of sales, service and reputation in the market.

Internally, TP need to improve its work efficiency and morale, solve its internal problems through the following arrangements in the short run:

1. Establish a centralized marketing department to support different sales departments of the company. The work load of marketing and promotion of RS department can then be shared and the whole department can concentrate in sales, project management and establish of relationship with clients. Moreover, this arrangement can allow the company to have a more unique company image and to standardize the marketing procedures and direction. This can help all the sales department to concentrate on sales issues in order to maximize sales and profits.
2. To release the heavy work load of RS Department, one more sales staff should be employed in order to have full coverage of its existing client base and available projects, and serve the customers in a more in-depth basis.

While in the long run, the morale and efficiency of the RS Department should be improved in order to maintain a stable personnel workforce and upgrade the internal technical support and customer services in the future :

1. Technical training to be provided for existing technical staff in order to equip them with upgrade technology and professional knowledge in building and constructions industry, so that they can provide enough technical support for product diversification. Although technical support also depends on overseas principles' advises, the local agent still need many local technical professions to solve problems at site and even modify the products to suit local needs.
2. Commission and incentive scheme should be reviewed for the existing RS sales staff. In order to release work load of the Department Manager so that he/she can concentrate on business planning and control of sales and overhead, a supervisory hierarchy should be created for the sales team so that more experienced sales staff can help to train and supervise new and junior sales staff. For this hierarchy to be effective, an overhead commission scheme should be designed and authority must be delegated to the supervisors. This can also create promotional chances and job satisfaction to the existing experienced sales staff.

Moreover, the commission scheme should be renewed so that the amount of commission is granted proportionally to the gross profit of the project, instead of a standard commission rate applying for all projects which can achieve a minimum gross profit set by the management. This is to encourage the sales staff to negotiate a high gross profit with the clients. Also, this is to increase the incentive for the sales staff to expand their business towards less profitable sectors such as the private sector which normally have projects with lower gross profit and therefore will not grant commission.

3. In terms of customer services, relationship selling is very important nowadays. As the sales personnel is unstable, it is difficult to have well-established relationships with customers. Therefore, the Managing Director of the top management should involve more in establishing high level customer relationship, but not relying only on the Department Manager.

Another recommendation for TP to increase the market share and sales volume is to establish a new division for low to middle end product line. As the existing product line of TP is from middle to high end, the market share captured by the major products of RS such as playground equipment and maple sports flooring is only about 30 percent, while the seating captured only about 10 to 15 percent of the market share. In order to gain more market share, the company must diversify its market position from high end to lower or middle end markets.

Lastly, as identified in the future opportunities, the China market has a very positive potential. Although the company has already established the China Trade Department which comprises of branch offices in Beijing and Guangzhou, the department is more concentrated in promoting other building products than the recreation and sports products. Moreover, the personnel are local mainland Chinese with lower calibre and under loose control. More emphasis should be put on recreation and sports products by gaining some prestigious job reference in the market first. Even as the market is not mature yet, preparation works have to be established in order to lounge the products successfully when the market is ready. The existing

marketing channel is very narrow, and this can be broadened by establishing dealers network in every major provinces in China.

Moreover, the company may consider establishing production plants in China by joint ventures with overseas suppliers in order to capture the opportunities of low production costs and acquire the technology, so that the company can get control over cost and technology for its long term development.

Implications and Evaluations

For each recommendations, we should understand their implications to the company and also the department so that we can evaluate the feasibility of these strategies.

1. Product Diversification :

- When the company search new brands of products to represent in order to increase the design and variety of it existing product line such as play equipment, it must take into account the conflicts that create to its existing principles. In most cases, agency agreement has limitation and control over their agents that they cannot represent products from their direct competitors. This is to protect the principles' interest so as to ensure their agents will concentrate to promote their brand of products only, but will not create direct competitions to their products.
- In searching new product ranges for the department, the department has to make sure the internal technical support is enough for providing the installation and maintenance services to its clients for the new products. Moreover, when locating new suppliers, it is necessary to choose a reliable and responsible supplier who can give substantial support in terms of technical advice and samples and catalogues. The terms of product warranty is also an important criteria. The product quality must also be in line with the company's existing market position.

- In exploring new products for other market segment, the management has to find a balance of work load assigned to the existing duties and this extra work loads. It is because the existing workload of the whole department is very heavy already.
2. Internal Improvement :
- When setting up the centralized marketing team, the company must set up a budget to see whether this is affordable in terms of cost and overheads. Moreover, the newly set-up marketing team should involve all the Department Managers as they are the ones who are most clear about their future sales and marketing plans and they are the people who set up the marketing budget. However, the marketing team should be reported directly to the Managing Director and work independently in the long run, so as to pick up all the marketing issues. The Department Managers should concentrate on sales issues and the budget for Marketing Department should be assigned by the Managing Director.
 - In designing the new commission and incentive scheme for the sales personnel, it is necessary to convince the board of directors of the GT Group. Careful calculations of improved commission and incentive scheme should be prepared to explain the needs to improve the sales morale on one hand, and on the other to evaluate the positive effects of the new incentive scheme which can stimulate a higher sales volume, and therefore a higher market share, and also maintaining or even increase the net profit.
 - In promoting relationship selling, the Managing Director is an important role besides the Department Manager. However, as mentioned before, the Managing Director has a background for other products and is not familiar with the market of recreation and sports. It is very difficult to motivate the Managing Director to do this actively for the RS Department. At this moment, the Department Manager can ask for more support from the Managing Director in contacting the principles and also the senior level of their existing client base. Moreover, the Managing Director should also be involved in more publicity activities such as sponsorship functions and dinners in order to establish better and closer customer relationship.

- In evaluating the feasibility of setting up a division to sell lower end product line, it involves more complicate considerations in terms of management support, financial support, and also market images. In setting up such a division, a new team of sales force must be recruited and trained up. If using the existing sales team to sell these low end products, the sales staff will find difficulty in identifying their professionalism when they make different recommendations to their client under different circumstances. Moreover, as the industry is quite concern about product quality and services, this will affect the well-established reputation and image of the company. Therefore, it is more effective to set up a separate sales team and even using a different company name, only the organization resources and support are shared internally.

3. Market Development in China:

- When developing the China market, internal monitor and control is very important. In order to have better supervision and control of the local mainland staff and the dealers, supervisors who are familiar and experienced with the market should be sent from Hong Kong and station in the territory. Moreover, the supervisors should be well trained up in Hong Kong so that they have enough exposure in the recreation and sport industry and are equipped with enough product knowledge and will emphasize in promoting the products in the territory.
- When establishing joint venture production base in China, the company must firstly establish good relationship with the China Government and it must have strong technical and production personnel to support the production line. Moreover, the company has to get the financial support from its mother company for the initial capital investment for the production plant. The managing director of TP has to convince the Group to support this development.

After evaluating all the above recommendations, all of them are feasible and can help to generate more sales volume and profit for the RS Department in the short and long run. However, the recommendation of development of low end product will diversify the existing resources and also create even more heavy work load to the existing RS Department. It is recommended that this strategy will not be carried out until the RS Department can maintain a stable environment and achieve a growing business status after taking all the other short term and long term strategies.

The last recommendation of China market development is also very difficult to implement at the moment. First of all, the most suitable personnel for promoting the recreation and sports products in China will be an existing senior staff or even the department manager of the RS department. However, it is suggested that concentration should be put to strengthen the RS department first, and therefore such personnel will not be available in the short term.

In establishing production plants by joint ventures in China, the company has to cope with new business profile which is totally different from its existing trading business nature. The company lacks such a production background and experience. It has to perform many tasks and may face many problems when it locate suitable plant for production, employ experienced and suitable production personnel and workers, establish relationship with relevant Government officers, and get familiar with all the procedures in doing business in China and also the import and export procedures. In the meantime, TP is not well established and not stable enough to expand in such scale.

Moreover, as shown in problem identification, the confidence of the Group towards the whole company of TP is weak and therefore the possibility for the Group to financially support the establishment of joint venture production plant in China will almost be zero. Based on the above reasons, it is not feasible for TP to establish production plants in China within these two or three years.

Conclusions

Being in the industry for over ten years, TP has actually gained a lot of advantages over its competitors. Together with the internal strong financial support and company background, TP is in a good market position to maintain or even to increase its market share.

However, there are still unknown environment factors such as government policy and budget in these facilities well after 1997 when Hong Kong is reunion with China. There are also some hidden internal factors such as the future planning and decisions of the board of directors of the GT Group, and the personal interest of the chairman of the GT Group.

Although GT Group can give good financial support to its subsidiary, it is a real fact that TP should increase its revenue and be more efficient in collecting its own debt so that the company can become more independent in terms of finance so as to offset the straight control from its mother company. It can then has more flexibility in business planning in order to cope with the increasing market competition.

APPENDIX 1

QUESTIONS FOR PRIMARY INTERVIEWS TO CUSTOMERS - contractors, Government officers, architects of ASD, and purchasing officers of private developers

1. How long have you been working in the building materials / recreation amenities industry?
2. What is your role and duty in selecting recreation / sports equipment in your organization / institutions?
3. What are the major concerns / criteria when you choose such materials?
4. How many companies you will consider each time while you need to select such equipment? What are the major concerns when you select a company to do your project?
5. How long do you know TP? How well do you know about its product range?
6. What do you think about its products quality?
7. What are your comments on TP in the following fields : pre- and post sales and customer service, strength of sales force, product range and quality, relationship with you, installation support and technical backup, delivery, pricing, marketing strategies such as seminars, advertising, sponsorship?
8. What suggestions will you have for the improvement of the company in the aspects of sales and marketing?
9. What is your expectation and forecast about the market and the trend of recreation and leisure industry in the coming five years?
10. What do you think are the most important thing the companies in this industry have to do in order to be competitive?
11. Can you estimate the order distributions among different suppliers in the industry placed by your company last year?
12. What will be the future market trend in terms of demand?

APPENDIX 2

QUESTIONNAIRE FOR MANAGING DIRECTOR OF TP

1. What is the company goals and mission of TP Co. Ltd. in the coming 5 to 10 years?
2. How can the company achieve these goals? What are the major difficulties or problems will you encounter during the process?
3. What are the major strength of TP Co. Ltd., being a medium size building material trading company in H.K.? What are the major weaknesses?
4. What is the annual sales turnover of the company, and what is the contribution from RS Department?
5. How much support have been given to the RS Department from the company?
6. How will you evaluate the RS Department of TP and what is your expectation in the coming 5 to 10 years?
7. What are the major strength and weaknesses of the Department in marketing the products in the market?
8. Who are the major competitors? How do they affect your business during the past years and recently?
9. What are the major factors for success in the recreation and leisure industry?
10. How do you evaluate the recreation and leisure industry in H.K. and Mainland China in the coming 5 to 10 years? What is the potential threat and opportunity?
11. What will be your plans to cope with the change?

APPENDIX 3

QUESTIONS FOR PREVIOUS AND RECENT STAFF IN THE COMPANY

1. How many years have you worked / been working for the company?
2. What are the major problems you have when you work in this company?
3. How do you evaluate the support that the Group and the company in the areas of the promotion and sales of the recreation and sports products?
4. What are the major competitive edges or difficulties you found in TP when you promote the products in the market?
5. What suggestions you will make in order to improve the company competitiveness of recreation and sports products in the market?
6. How do you comment on the office morale? Will this affect your performance and commitment in the company?
7. How is the trend of the present market?

APPENDIX 4

RECREATIONAL, SPORTS AND AMENITIES FACILITIES
PROVIDED BY THE USD AND RSD

Children playgrounds
 Major parks
 Sitting-out area/rest gardens
 Chess games pitches
 Soccer pitches (natural/artificial turf)
 Hockey pitch (artificial turf)
 Rugby pitch (natural turf)
 Hard-surfaced mini soccer pitches
 Basketball/Volleyball/Badminton courts (hard-surfaced)
 Tennis courts (hard-surfaced/artificial turf)
 Handball courts
 Golf driving range (natural/artificial turf)
 Bowling Greens (natural turf)
 Archery Range
 Camp Site
 Running tracks
 Jogging Track Fitness Trail
 Roller Skating Rink
 Riding School
 Sportsground
 Beaches
 Swimming pool Complex
 Water Sports Centre
 Indoor Games Hall/Recreation Centre
 Squash courts

Other facilities include barbecue pits, changing rooms, fountains, refreshment kiosks, public toilets, pavilions/shelters and spectators stands.

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